



MISSOURI FARM BUREAU FEDERATION

P.O. Box 658, 701 South Country Club Drive, Jefferson City, MO 65102 / (573) 893-1400

September 18, 2019

Mr. Ajit Pai
Chairman
Federal Communications Commission
445 12th St. SW
Washington, DC 20554

Dear Chairman Pai:

We appreciate the continued investment of federal funds into the deployment of broadband throughout the nation. We share your desire to be a good steward of federal money and want the Federal Communications Commission (FCC) delivery process to be successful.

The Missouri Farm Bureau Federation conducted an analysis of the FCC's processes and requirements for previous reverse auctions, with a focus on the Connect America Fund (CAF) II and awardee granted funds. As an organization that represents the end-user, our analysis emphasizes the importance of building a broadband network that is "future-proof" and can benefit all Americans. We want to share our thoughts on ways to improve the distribution of funds in future reverse auctions:

1. **Improve the Determination of Eligible Areas**--A key component to funding and awards is the determination of eligible areas. The current process relies on census blocks which has resulted in an over-reporting of where broadband exists. The "count one-count all" approach leaves many reported as served when in fact they are not. Census blocks are too large in rural and remote areas to accurately target broadband investments. More granular data should be used. Until this is changed, there will be many areas nationally that will not be eligible for funding, typically the most remote areas.
2. **Increased Accountability**— There is an expectation that federal funds include accountability measures throughout the allocation process to protect the funds that will be awarded. However, we are concerned that the current distribution process does not include sufficient accountability.
 - a. FCC awards funds in Phase I of the auction process based on only the applicant's information and certification. At this phase the funds are considered allocated. If in Phase II of the process the applicant does not meet the final financial or technical criteria and review, the awarded money goes back to FCC for use in the next auction or for other purposes. Ultimately, the funds available for

broadband deployment are delayed and residents of the affected area remain unserved or underserved.

We recommend that FCC's due diligence should start before the awards are made and should not rely strictly on information presented in the application. Specifically, there are three areas that should be completed before awards are made:

- i. Certification as an Eligible Telecommunications Carrier (ETC) – If an applicant is not authorized to deliver broadband services in the state, then it should be required to apply to the state's Public Service Commission for a certification. The state's Public Service Commission should review the applicant's application to determine if the applicant has the ability to deliver the proposed services. Some states do a thorough review looking at applicant history, technology provided and being proposed, etc., but most states do not. This means that in most states this process is a rubber stamp that only certifies the applicant's name and organization are legal.

FCC says it is the state's responsibility to do this thorough review yet the majority of the states indicate that it is FCC's responsibility.

Consequently, there is no review process as to whether the applicant has the ability to provide broadband services as proposed. As a result, some providers are being certified that do not appear to have the capability to provide broadband services as proposed. There is no FCC guidance to the states on what is expected for providers to receive the ETC certification and no consistency among the states on how this is being handled. FCC needs to either provide guidance to the states on what is expected to receive this certification or the FCC should assume the responsibility of the review and certification.

- ii. Applicant's Financial Ability – Currently, the FCC only requires a letter of commitment from a lender when an application is submitted. Most lenders will give a commitment that only ensures they will look at possible funding to the applicant for the project. The letter of credit that actually commits the funding by the lender and addresses the financial ability of the applicant to carry out the proposal does not have to be submitted until the applicant is already selected for funding.

If the applicant cannot get the letter of credit, the funds are held over for the next auction or for other purposes. There is minimal review of credit worthiness before funds are committed. The typical business model is to review financial strength in advance of awarding funds.

- iii. **Technology Review** – This is an area where the FCC could commit additional resources. The actual technology review by FCC does not take place until the second stage of the process, which is after the funds are already awarded. If the technology review shows the applicant is not likely to produce the speed they submit, the funds remain with the FCC for the next auction or for other purposes.

A review of CAF II applicants and awardees indicate that there are questionable proposals that cannot meet the specifications in their proposal. An example is a Missouri awardee that received a large award because their proposal stated they could provide 100 MBPS download and 20 MBPS upload. A review of their current speeds on their website and a national report for our state shows that this provider's current average speed is 7.2 MBPS. This is not even close to the speed in their proposal, which uses the same wireless technology.

The process would be improved if decisions were made based upon a comprehensive review, which includes legal access to needed infrastructure, before awards are made. The review would ensure applicants are an eligible telecommunication carrier, have a letter of credit and are using appropriate technology.

Another option would elevate the level of review based on the amount of dollars awarded. The higher the award, the more thorough the review. Accountability and due diligence are critical to the overall success of the program.

- b. Currently, after the awardee is given the notice of final award and first year's funds are disbursed, the first benchmark and the first time that FCC examines progress is 3 years after the award is made. The funds are distributed over 10 years so a provider could receive the first 3 years funding without proceeding with the deployment and then return the funds to FCC at that time. Under this scenario, customers remain unserved and valuable time is lost.
- 3. **Consideration of Spectrum Needs** – When an application is submitted that requires the use of spectrum, then the FCC must ensure the applicant has access to that spectrum. If a company receives a large award but cannot get the spectrum required, then the applicant cannot provide broadband. In Missouri, there is a wireless provider that received funds to provide broadband for thousands of residents and businesses but does not have access to the needed spectrum. It does not appear that FCC takes this into consideration in the review. We recommend that a higher level of review could be scaled to the level of spectrum they will need. If they have a high need for spectrum that they do not currently have, they should fall to a different tier of review.
 - 4. **Require the Use of Actual Speed**-- The FCC should consider the use of "actual" not advertised speed and consider increasing the minimum speed above the 25 MBPS download and 3 MBPS upload speed. At a minimum there should be a requirement that any award be scalable for higher speeds in the future. Funding for the "moment in

time” is not a good use of the resources available with the pace of new technologies and needs.

The FCC is still using 10 MBPS download and 1 MBPS upload to determine if an area is eligible. This presents a serious problem. First, this is advertised speed, not actual speed; and, this speed will not allow residents and businesses to perform the functions that may be required. For example, the Missouri provider mentioned earlier has an actual average speed of 7.2 MBPS yet they advertise a 10 MBPS speed to consumers. This means any census tract currently served by the company is not eligible to receive funding as FCC uses the 10 MBPS even though they are not delivering that speed.

5. **The Cost to the End User Must Be Given More Consideration** - Fees and rates charged to broadband customers are not given enough consideration in funding decisions. The formula used to rate and score the applications only uses an urban survey to determine the cost to the end user. It does not appear that any consideration has been given to rural areas in the formula, point system or fee chart. It is not equitable to make all awards based only on urban information.

Missouri compiled a list of providers in the state, including awardees of CAF II funds, and listed their current rates. There were awardees from the CAF II auction that are currently charging \$300 per month for 10 MBPS (fixed wireless) and \$400 per month for 20 MBPS. This is not affordable; at these rates providers will not get the subscription rate they need to make a given project feasible. There were other providers identified in this compilation that provide 100 MBPS actual speeds for \$50 per month with fiber technology. However, they were passed over for funding because other applicants over-promised what they were capable of delivering and the number of people they could serve.

6. **The Current Scoring Formula Should be Reviewed**--The scoring formula needs to be reviewed and revised before the next funding cycle/auction. As mentioned earlier, the formula lacks key information from rural areas. This means rural broadband deployment by rural telephone and electric cooperatives is not being included in the weighting factors of the formula. Unlike many providers, these organizations are non-profit and the figures and weights would look different if rural information was included.

The current formula contains four tiers of funding. The number of customers and areas to be served, broadband speed, and other factors determine the appropriate tier for an applicant. The formula is designed to cover larger areas with the most “robust” service. The speed chart, which is the only place in the formula where speed is considered, basically eliminates the weight for gigabit service which we would interpret as the most robust. The formula is designed to be a one-size fits all. The formula favors providers focusing on areas with larger populations to the detriment of rural areas.

7. **The Impact of Economic Development Warrants Consideration** – Many rural areas continue to experience outmigration but the current FCC formulas do not address the positive effect of broadband on rural economic development. Rural communities, residents, businesses and farmers depend on broadband just like their urban neighbors. FCC's recent Broadband Progress Report contains many statistics on the economic benefits of broadband in rural communities and agriculture.

Given the points referenced in this letter, we feel the FCC would benefit from a research program to ensure CAF dollars are being invested in the best possible manner. We recommend that funds be allocated annually over the next ten years for competitive grants designed to improve the efficiency of the reverse auction process and the quality of broadband projects selected for funding. Specifically, such research would include 1) measuring the economic consequences of allocations associated with funding under current FCC models and 2) analyzing the economic consequences of various modifications to existing FCC formulas and 3) the development and implementation of a comprehensive, dynamic econometric modeling system to analyze the consequences of policy options for expansion of broadband in rural areas.

We are grateful for your continued support and investment in rural America. Our recommendations are intended to improve the process by ensuring the many benefits of broadband are made available to all citizens as quickly as possible.

Sincerely,

A handwritten signature in black ink, appearing to read "Blake Hurst". The signature is fluid and cursive, with the first name "Blake" written in a larger, more prominent script than the last name "Hurst".

Blake Hurst, President

CC: Missouri Congressional Delegation